

LA PORTE CITY UTILITIES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2009

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La Porte City Utilities

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phil Norris	Trustee - Chairman	September 2009
Don Heckroth	Trustee - Secretary	September 2011
Jon Barz	Trustee	September 2013

La Porte City Utilities

Independent Auditor's Report

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 12, 2010 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 23 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the La Porte City Utilities's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

January 12, 2010

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

LA PORTE CITY UTILITIES

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MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. It is to be used in conjunction with the Utilities Annual Report, which follow.

BASIS OF ACCOUNTING

The Utilities has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to *when* financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*); as well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

Basic Financial Statements

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)
Reconciles any differences between Exhibit A and Exhibit B

Notes to the Financial Statements

- Provide additional information essential to a full understanding of the data provided in the basic financial statements.

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

Required Supplementary Information

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

Other Supplementary Information

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)
Presents the non-major funds in more detail that were lumped together in Exhibit B.
- **Schedule of Indebtedness** (Schedule 2)
Presents detailed information on outstanding debts incurred by the Utilities.
- **Bond and Note Maturities** (Schedule 3)
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

BASIC FINANCIAL STATEMENTS

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)

The first section of the statement presents the major **Functions/Programs**. For the Utilities, those are the Electric Fund, Water fund, Debt Service Reserve Fund, Capital Improvement Reserve fund, and the Diesel Engine Reserve fund. The *Disbursements* are listed in the first column with *Charges for Service* and *Restricted Interest* revenues from each program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Bond Proceeds*, *Unrestricted Interest*, *Miscellaneous Revenues*, and *Transfers*. These revenues are not listed above because they are not generated from the direct operation of the program.

Adding the *Business Type Activities Total* with the *Total General Receipts and Transfers* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2009, the change in net assets was a decrease of \$247,419. Subtract that from the *Beginning Net Assets* balance of \$972,484 gives us a new *Cash Basis Net Assets – End of Year* balance of \$725,065.

The final section of this report shows that the *Cash Basis Net Assets* consist of \$301,385 in restricted funds, and \$423,680 in un-restricted funds. Of the restricted funds, some are required to be established by Bond Covenants, others by State Law, or some are established by the Board to help it control and manage money for particular purposes.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The major funds the Utilities maintain are the Electric and Water fund, as well as the Debt Service

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

Reserve Fund, Capital Improvement Reserve Fund, and the Diesel Engine Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds (Schedule 1).

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements*. This gives us the Net Operating Revenue (Loss) for each fund. After adding in the Bond Proceeds and subtracting out the Debt Service disbursements, and Operating Transfers we come to the *Net Change in Cash Balances* for each fund. This is the Net "Profit/ (Loss)" for each of the funds

After adding the *Net Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Reserved and Unreserved.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

FINANCIAL HIGHLIGHTS

The total revenues for all departments were \$1,815,087. This is a decrease of \$948,386 or a 34% decrease from the previous year's revenues. Of this \$948,386 decrease, 881,080 was reissuance in 2008 of Revenue Bonds to obtain a lower interest rate. Included in the revenue was \$54,900 in 2009 from the approved loan of \$250,000 from the State Revolving Loan.

- Use of Money and Property in the 2009 fiscal year was \$22,920; this is a decrease of \$17,039 or approximately a 42 percent decrease from the previous year's earnings. Using some of the reserves for capital improvement projects coupled with decreasing interest rates resulted in this decrease.

The total disbursements for all departments were \$2,062,506. This is down \$739,386 or approximately 34 percent from the previous year's total expenses. Again, this is attributable to the refinancing of the bonds in 2008 and paying off the original bonds of \$885,000.

- Capital Improvements are an important part of providing reliable and quality services. Capital Improvement costs decreased \$156,912 or 43% percent from 2008. Completing the Sweet Addition project decreased some of the annual capital costs while new additional projects and purchases added back to the overall total.

Feeder #6: An additional over-head distribution line was necessary to eliminate system deficiencies. The new line initiated at the sub-station and terminated at the bin site of East Central Iowa Co-Op. This project was started in the 2007 fiscal year and the final payment of \$64,371 was made in the 2009 fiscal year.

Capital Project: The Iowa Department of Natural Resources completed an inspection of our water system and determined that major improvements were necessary to have a viable water system, including a new water tower and well. Preliminary engineering fees of \$99,500 were expended in this fiscal year. A State Revolving Loan of \$250,000 was approved to cover the Planning and Design Engineering costs. \$54,900 was drawn from that loan by the end of FY 2009.

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

Capital Purchases: An office building was purchased this year for a total cost of \$70,000, a new pickup truck with service body for 30,189 and a new well pump for \$20,919.

Expenses exceeded revenues resulting in a decrease in the net assets of \$247,419. This is compared to a net decrease the previous year of \$38,771. The ending fund balance on June 30, 2009 was \$725,065.

According to our Bond Covenant, our Net Operating Revenues (Receipts less Operating Disbursements) for the electric department must be at least 125% of the year's scheduled Bond Payment. The Bond payment paid for FY2009 was \$148,230. This means we must have Net Operating Revenues of \$185,287. Since our expenses exceeded our revenues, we did not make our bond test and we must raise electric rates in this fiscal year to comply with the Bond Covenant.

	Year Ended June 30, 2009		\$	
	2009	2008	Difference	% Change
Program Receipts:				
Charges for Service:				
Electric	\$1,409,876	\$1,457,509	-\$47,633	-3.2%
Water	\$243,408	\$241,532	\$1,876	.78%
Restricted Interest	\$10,838	\$13,586	-\$2748	-20.2%
General Receipts:				
Un-restricted Interest	\$12,082	\$26,373	-\$14,291	-54.2%
Miscellaneous	\$83,983	\$143,393	-\$59410	-41.4%
Proceeds of Long Term Debt	\$54,900	\$881,080	-\$826,180	-93.8%
Total Receipts	\$1,815,087	\$2,763,473	-\$948,386	-34.3%
Disbursements:				
Operating Disbursements:				
Electric	\$1,506,241	\$1,276,757	\$229,484	17.8%
Water	201,801	142,706	59,095	41.4%
Capital Projects	206,234	363,146	-156,912	-43.2%
Debt Service	148,230	1,019,635	-871,405	-85.4%
Total Disbursements	\$2,062,506	\$1,634,385	-\$739,738	-26.3%
Increase (Decrease) in Cash Balance	-\$247,419	-\$38,771	-\$208,646	-538.1%
Cash Basis Net Assets Beginning of Year	972,484	874,550		
Cash Basis Net Assets End of Year	725,065	\$972,484		

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

2009 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in May 2009. The amendment allowed for the following changes:

Electric department

Revenue:

- Increased Charges for Services due to higher than anticipated kilowatt hours sold.
- Decreased Use of Money and Property due to drastically lower than estimated interest rates.
- Increased Miscellaneous revenues due to increased LIHEAP funds, larger safety dividend and Transferred In funds from Office Improvement Reserve for purchase of office building.

Expenses:

- Increased purchased power costs due to new contract with higher purchased power costs.
- Increased capital project line items in anticipation of completing major projects.
- Increased capital expenditure line items due to purchase of office building as well improvements to the generators.

Water department

Revenue:

- Increased Charges for Services due to higher volume of usage during the year.
- Increased Transfers In from Reserves for purchase of new office building and truck.

Expenses:

- Increased expenses due to pump and water tower maintenance, higher Inter-Department expenses and plant operations
- Increased bond proceeds in the budget amendment to account for the \$54,900 received from the State Revolving Loan Fund to assist with paying for the Planning and Design costs accrued at June 30, 2009 to comply with mandates from the Iowa DNR to make significant improvements to the water system.
- Increase capital expenditures; engineering expenses for system improvements mandated by the DNR and a new truck.

DEBT ADMINISTRATION

As of June 30, 2009 the Utilities had an obligation of \$770,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000 and reissued in May, 2008 for \$885,000 to take advantage of lower interest rates. The 2008 Series bonds are scheduled to mature in 2015.

NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the Fiscal Year 2010 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 125% of that

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2009

year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2010 is \$147,255. That means we are required to have Net Operating Revenues in the Electric Department of at least \$184,061. We budgeted an Electric rate increase in FY2010 to raise our revenues to be able to meet the Bond Covenant.

- The current purchased power contract with Resale Power Group of Iowa (RPGI) renewed January 1, 2009. At the time of budgeting, the new contract estimated a 23% increase.
- The remaining items were budgeted fairly consistent compared to those of the 2009 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2010 budget.

CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Sue Hrubes, La Porte City Utilities Office Manager, 200 Main Street, La Porte City, Iowa.

Basic Financial Statements

La Porte City Utilities
Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2009

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Business Type Activities Total
Functions / Programs:				
Business type activities:				
Electric	\$ 1,582,898	1,409,876	-	(173,022)
Water	331,378	243,408	-	(87,970)
Debt Service	148,230	-	-	(148,230)
Capital Improvement Reserve	-	-	4,156	4,156
Diesel Engine Reserve	-	-	6,560	6,560
Non-major funds	-	-	122	122
Total business type activities	2,062,506	1,653,284	10,838	(398,384)
General Receipts:				
Bond proceeds				54,900
Unrestricted interest on investments				12,082
Miscellaneous				83,983
Transfers				-
Total general receipts and transfers				150,965
Change in cash basis net assets				(247,419)
Cash basis net assets beginning of year				972,484
Cash basis net assets end of year				\$ 725,065
Cash Basis Net Assets				
Restricted:				
Other purposes				301,385
Unrestricted				423,680
Total cash basis net assets				\$ 725,065

See notes to financial statements

La Porte City Utilities
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

	Enterprise Funds					Total
	Electric	Water	Capital Improvement Reserve	Diesel Engine Reserve	Other Nonmajor Proprietary Funds	
Operating receipts:						
Use of money and property	\$ 9,756	2,326	4,156	6,560	122	22,920
Charges for service	1,409,876	243,408	-	-	-	1,653,284
Miscellaneous	68,515	15,468	-	-	-	83,983
Total operating receipts	1,488,147	261,202	4,156	6,560	122	1,760,187
Operating disbursements:						
Business type activities	1,582,898	331,378	-	-	-	1,914,276
Total operating disbursements	1,582,898	331,378	-	-	-	1,914,276
Excess (deficiency) of operating receipts over (under) operating disbursements	(94,751)	(70,176)	4,156	6,560	122	(154,089)
Non-operating receipts (disbursements):						
Bond proceeds	-	54,900	-	-	-	54,900
Debt service	-	-	-	-	(148,230)	(148,230)
Total non-operating receipts (disbursements)	-	54,900	-	-	(148,230)	(93,330)
Excess (deficiency) of receipts over (under) disbursements	(94,751)	(15,276)	4,156	6,560	(148,108)	(247,419)
Operating transfers in/(out)	(41,611)	26,494	(52,102)	(81,011)	148,230	-
Net change in cash balances	(136,362)	11,218	(47,946)	(74,451)	122	(247,419)
Cash balances beginning of year	432,735	116,089	239,536	164,391	19,733	972,484
Cash balances end of year	\$ 296,373	127,307	191,590	89,940	19,855	725,065
Cash Basis Fund Balances						
Unreserved	296,373	127,307	-	-	-	423,680
Reserved	-	-	191,590	89,940	19,855	301,385
Total cash basis fund balances	\$ 296,373	127,307	191,590	89,940	19,855	725,065

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2009

Total enterprise funds cash balances (page 15)	\$ 725,065
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The utility does not have an internal service fund.
Therefore there are no reconciling items.

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Cash basis net assets of business type activities (page 14)	<u>\$ 725,065</u>
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Net change in cash balances (page 15)	\$ (247,419)
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The utility does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of business type activities (page 14)	<u>\$ (247,419)</u>
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See notes to financial statements

La Porte City Utilities

Notes to Financial Statements

June 30, 2009

(1) **Summary of Significant Accounting Policies**

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements - Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

The Water Fund accounts for the operation and maintenance of the Utility's water system.

The Capital Improvement Reserve Fund acts as a reserve fund for future capital improvements.

The Diesel Engine Reserve Fund was a reserve fund established per the bond covenants.

C. Measurement Focus and Basis of Accounting

The La Porte City Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments at June 30, 2009 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	<u>\$106,704</u>	<u>106,704</u>	<u>Various Dates</u>

The Utility held investments in credit unions which are valued at \$420,457 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$65,323 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Revenue Bonds and Loans Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Utility Revenue Bond	
	Principal	Interest
2010	120,000	26,855
2011	120,000	23,075
2012	125,000	19,115
2013	130,000	14,865
2014	135,000	10,315
2015	140,000	5,320
Total	\$ <u>770,000</u>	<u>99,545</u>

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

During the year the Utility was awarded a \$250,000 State Revolving Loan with zero percent interest. Loan advances of \$53,900 were taken out during the year and no principal payments were made as of June 30, 2009. The purpose of the loan is for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility.

(4) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$16,546, \$14,035, and \$13,534, respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the Electric and Water Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 9,546
Sick leave	<u>2,062</u>
Total	<u>\$ 11,608</u>

This liability has been computed based on rates of pay in effect at June 30, 2009.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Electric	\$ 148,230
Capital Improvement Reserve	Electric	32,100
	Water	13,000
Electric	Diesel Engine Reserve	81,011
	Capital Improvement Reserve	57,708
Water	Capital Improvement Reserve	39,494

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Subsequent Event

During the audit of the La Porte City Utilities for the year ended June 30, 2009 it was discovered that improper disbursements were made by Christy Wylie, the bookkeeper for the Utility. The disbursements were for a personal laptop computer and personal utility bills, and totaled approximately \$3,895. The laptop was later recovered at Ms. Wylie's residence. The Utility Board is working with local authorities to recover the funds and Ms. Wylie was terminated immediately.

Required Supplementary Information

La Porte City Utilities

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 22,920	36,143	27,335	(4,415)
Charges for service	1,653,284	1,787,446	1,821,458	(168,174)
Miscellaneous	83,983	73,036	89,471	(5,488)
Total receipts	<u>1,760,187</u>	<u>1,896,625</u>	<u>1,938,264</u>	<u>(178,077)</u>
Disbursements:				
Business type activities	<u>1,914,276</u>	<u>1,765,283</u>	<u>2,163,050</u>	<u>248,774</u>
Total disbursements	<u>1,914,276</u>	<u>1,765,283</u>	<u>2,163,050</u>	<u>248,774</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(154,089)	131,342	(224,786)	70,697
Other financing sources (uses), net	<u>(93,330)</u>	-	167,989	<u>(261,319)</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	(247,419)	131,342	(56,797)	(190,622)
Balances beginning of year	<u>972,484</u>	<u>681,267</u>	<u>972,483</u>	<u>(1)</u>
Balances end of year	<u>\$ 725,065</u>	<u>812,609</u>	<u>915,686</u>	<u>(190,623)</u>

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$364,659 and budgeted disbursements by \$552,798. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

La Porte City Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2009

	Proprietary Funds			
	Meter Deposits	Debt Service Reserve	Diesel Engine Improvement	Total
Receipts:				
Use of money and property	\$ 122	-	-	122
Total receipts	122	-	-	122
Disbursements:				
Business type activities	-	-	-	-
Total disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	122	-	-	122
Other financing sources:				
Debt service	-	(148,230)	-	(148,230)
Operating transfers in/(out)	-	148,230	-	148,230
Net change in cash balances	122	-	-	122
Cash balances beginning of year	9,733	-	10,000	19,733
Cash balances end of year	\$ 9,855	-	10,000	19,855

Cash Basis Fund Balances

Reserved for debt service:	-	-	-	-
Reserved:				
Capital projects fund	-	-	10,000	10,000
Permanent fund	9,855	-	-	9,855
Total cash basis fund balances	\$ 9,855	-	10,000	19,855

See accompanying independent auditor's report

Schedule 2

La Porte City Utilities

Schedule of Indebtedness

Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Utility Revenue Notes - Electric fund	May 1, 2008	3.0 - 3.8%	885,000
State Revolving Loan - Water Revenue Capital Loan Notes	April 8, 2009	0%	250,000

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
885,000	-	115,000	770,000	32,830	-
-	54,900	-	54,900	-	-
<u>\$ 885,000</u>	<u>54,900</u>	<u>115,000</u>	<u>824,900</u>	<u>32,830</u>	<u>-</u>

Schedule 3

La Porte City Utilities
Bond and Note Maturities

June 30, 2009

Year Ending June 30,	Utility Revenue Bonds	
	Electric	
	Issued May 1, 2008	
	Interest Rates	Amount
2010	3.15%	120,000
2011	3.30%	120,000
2012	3.40%	125,000
2013	3.50%	130,000
2014	3.70%	135,000
2015	3.80%	140,000
		<u>\$ 770,000</u>

See accompanying independent auditor's report

La Porte City Utilities
Schedule of Receipts by Source and Disbursements By Function
All Proprietary Funds

For the Last Eight Years

	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:								
Use of money and property	\$ 22,920	39,959	47,018	23,236	15,113	12,281	17,041	31,363
Charges for service	1,653,284	1,699,041	1,638,317	1,531,128	1,383,209	1,255,468	1,170,925	1,031,824
Miscellaneous	83,983	143,393	85,755	80,284	75,614	88,088	7,579	124,217
Bond proceeds	54,900	881,080	-	-	-	-	-	-
Total	<u>\$ 1,815,087</u>	<u>2,763,473</u>	<u>1,771,090</u>	<u>1,634,648</u>	<u>1,473,936</u>	<u>1,355,837</u>	<u>1,195,545</u>	<u>1,187,404</u>
Disbursements:								
Business-type	\$ 1,914,276	1,782,609	1,479,790	1,370,877	1,219,895	1,104,848	1,252,566	1,028,562
Debt service	148,230	1,019,635	154,595	154,320	153,740	152,760	151,285	155,035
Total	<u>\$ 2,062,506</u>	<u>2,802,244</u>	<u>1,634,385</u>	<u>1,525,197</u>	<u>1,373,635</u>	<u>1,257,608</u>	<u>1,403,851</u>	<u>1,183,597</u>

See accompanying independent auditor's report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated January 12, 2010. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Porte City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects La Porte City Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of La Porte City Utilities' financial statements that is more than inconsequential will not be prevented or detected by La Porte City Utilities' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by La Porte City Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe items II-A-09, II-B-09, and II-C-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Porte City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit La Porte City Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of La Porte City Utilities and other parties to whom La Porte City Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

January 12, 2010

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE: No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

II-B-09 Preparation Financial Statements - La Porte City Utilities does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Recommendation - The Utility should conform with generally accepted accounting principles.

Response - The Utility feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion - Response accepted.

At the request of the Utility board, we performed special procedures on the La Porte City Utilities for the period July 1, 2008 through June 30, 2009. Item II-C-09 addresses the additional procedures.

II-C-09 Dummy Checks - During the year the Utility used "dummy" checks to enter expenditures into their computer system that were not paid by a traditional paper check. These are typically used for online payments and ACH transactions and are not pre-numbered. We found three dummy check

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

transactions for unauthorized expenditures using Utility funds by an employee.

- On June 9, 2009, an online payment for \$3,015.00 was withdrawn from the Utility checking account and paid to PayPal. Upon further investigation this expenditure was initiated by the Utility bookkeeper, Christy Wylie, for a personal laptop computer that was unauthorized by the Board. The laptop was for Christy's personal use and was recovered at her home upon investigation.
- On two occasions, a total of \$880.15 was withdrawn from the Utility checking account as ACH transactions. Upon further investigation, it was found that these expenditures were for gas bills paid to Black Hills Energy which were charges for service to a personal residence. The account was registered in the name of William Wylie for service at William's home. William is Christy's Wylie's husband. The two payments were initiated by Utility bookkeeper Christy Wylie and were unauthorized by the Board.

Recommendation – The Utility should establish a written policy governing the use of dummy checks and should seek reimbursement for the inappropriate charges. The Utility should consider, at a minimum, requiring all dummy checks and online/ACH payments to be approved by the Board of Directors. Also we recommend a pre-numbering system for these payments from the Utility checking account to avoid random assignment of numbers.

Response – The Utility will establish a written policy for the use of dummy checks and online payments and is dealing with their bank and local authorities for reimbursement of the charges. The employee was terminated by the Board immediately upon their learning of the improper use of Utility funds.

Conclusion – Response accepted.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget – Disbursements during the year ended June 30, 2009 did not exceed the amounts budgeted.

III-B-09 Questionable Disbursements – Certain disbursements for personal expenses noted in item II-C-09 above may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

According to the Attorney General's opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Board should strengthen internal controls with regard to automatic payments to the Utility checking account so it is not possible for these questionable disbursements to be made.

Response – We will comply with this recommendation and are working with legal council and our local authorities to obtain reimbursement for the unauthorized charges.

Conclusion – Response accepted.

III-C-09 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted. However, we did note that a mileage reimbursement to an employee was paid using an incorrect reimbursement rate. Per the Utility's Resolution 07-09 dated October 10, 2007, the Utility will reimburse business related travel at a rate of 90% of the rate established by the Internal Revenue Service.

Recommendation – The Utility should verify the approved IRS mileage reimbursement rate often to prevent reimbursing mileage at an incorrect rate.

Response – We will verify the IRS mileage rate in the future.

Conclusion – Response accepted.

III-D-09 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-E-09 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board of Trustee Minutes – We noted an instance where a transfer was approved in the board minutes but was not made.

Recommendation – The Utility should make all approved transfers.

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Response – It was determined that the funds were not available to make the transfer after the transfer had been approved.

Conclusion – The board should have approved rescinding the original transfer if it was determined that the funds were not available to make the approved transfer.

III-G-09 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

III-H-09 Revenue Notes– We noted that the Utility did not meet their Electric Fund Revenue Note covenants during the year. The Utility is required, per its bond covenants such that "net revenues available for debt service in each year are equal to or greater than 120% of the debt service on the Notes required to be paid in such year."

Recommendation – The Utility should develop a plan to increase revenues and/or decrease expenditures so as to meet their revenue note covenants.

Response – We plan to raise rates in order to meet our covenants in the future.

Conclusion – Response accepted.

La Porte City Utilities

Staff

This audit was performed by:

Gina E. Trimble, CPA, Manager